REESE & NOVELLY, P.A.
Certified Public Accountants

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November 9, 2015

County Commission
Nemaha County, Kansas

We have audited the regulatory basis financial statement of Nemaha County, Kansas for the year ended December 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 8, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Nemaha County, Kansas are described in Note A to the financial statement. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statement taken as a whole.

Disagreements with Management
For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statement or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

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Management Representations
We have requested certain representations from management that are included in the management representation letter dated November 9, 2015.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statement or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Communication of Significant Deficiencies and/or Material Weaknesses
See the attached Appendix A for our discussion regarding significant deficiencies and/or material weaknesses.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Appendix B has been provided as additional recommendations and discussion to assist in improving accounting, administrative, and operation controls and procedures. Cost effectiveness may not warrant the implementation of any or all of the items, but the County should consider the suggestions and prioritize as needed.

(Other Matters)

With respect to the regulatory-required supplementary information accompanying the financial statement, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles accepted in the *Kansas Municipal Audit and Accounting Guide* for regulatory basis reporting, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statement. We compared and reconciled the regulatory-required supplementary information to the underlying accounting records used to prepare the financial statement or to the financial statement itself.

We were engaged to report and provide a Schedules 4 and 5, which accompanies the financial statement but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with method of accounting adopted by the County, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statement. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statement or to the financial statement itself.

This information is intended solely for the use of County Commissioners and management of Nemaha County, Kansas and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Reese & Novelly, PA CPA's

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APPENDIX A: SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

In planning and performing our audit of the regulatory basis financial statement of Nemaha County, Kansas as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*, we considered Nemaha County, Kansas's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of Nemaha County, Kansas's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Nemaha County, Kansas's internal control to be significant deficiencies, those considered to be material weaknesses are indicated in parenthesis:

1. <u>Preparation of Financial Statement and Note Disclosures (Required per audit standards):</u>

The County prepares its financial statement in accordance with accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, in accordance with the reporting and formatting requirements displayed in the *Kansas Municipal Audit and Accounting Guide (KMAAG)*.

Our firm has been asked to assist in the preparation of the financial statement and related note disclosures for the County. Current auditing standards require us to discuss our assistance with the governing body as to management's ability to prepare and understand the financial statement and related notes. County personnel do have the skill and knowledge to process all of the basic financial transactions and the ability to issue the internal financial statements needed to provide appropriate budget and operating information to the County Commission on an as needed basis. The County does not have a policy implemented as it relates to the preparation of external financial statement to ensure accuracy and completeness of the external financial statement, which in accordance with required audit standards is considered to be a significant deficiency.

Recommendations: We understand that it may not be cost effective to hire full-time professional staff with the knowledge and expertise to prepare the external financial reports, including the note disclosures as required per KMAAG. There are, however some procedures the County can consider implementing to mitigate the County's risk associated with external financial reporting:

a. Maintain a current copy of the Kansas Municipal Audit and Accounting Guide (KMAAG), prescribed by Director of Accounts and Reports Department of Administration. The KMAAG can be purchased through the Kansas Society of Certified Public Accounts at www.kscpa.org
b. Use the checklist provided in the KMAAG to compare to the County's policies and procedures and review the draft of all audit reports provided by auditor prior to completion.
c. Participate in training on financial statement presentation.
d. Adopt a policy in which the governing body and management will review annual financial statements prior to being subjected to audit. This should include a reconciliation of the beginning balances to the prior year ending audited balances.

APPENDIX B: OTHER CONTROL MATTERS

The following recommendations are submitted to assist in improving accounting, administrative and operational controls and procedures. Cost effectiveness may not warrant the implementation of the items listed, but the County should consider the suggestions and prioritize as needed.

1. **Grants Management**:

   As discussed in the previous year, the County does not have an overall process with respect to County-wide grants management to address the County's policy for approving grant applications, the accounting and reporting for grant receipts and expenditures, and state and federal compliance requirements for each of the grants.

   We noted that some grants are maintained in a grant fund that uses line items for each of the grants, however it does not maintain carry-forward balances for each grant, therefore the grant is not tracked properly over the life of the grant if it expands more then one accounting period.

   In addition there is no process to track all of the County's grant expenditures in order to determine if and when the County is subject to audit requirements contained in G*overnment Auditing Standards*, issued by the Comptroller General of the United States under provisions of OMB Circular A-133 Single Audit Act. Standards require a Single Audit to be performed in any year in which the County expends more then $500,000 in federal funds. The County is responsible for the determination of the audit requirements as well as the preparation of the Schedule of Expenditures of Federal Awards which can be used to determine single audit requirements, and should include (1) federal agency awarding grant; (2) pass-through agency (if applicable); (3) Federal CFDA program; (4) amount of award; (5) current year expenditures; and (6) current year grants revenue.

   Recommendations*:* We recommend the County establish a policy and procedures setting the protocol for applying for grants, notification of awards, and the financial accounting and reporting of the grant receipts and expenditures, as well as establishing guidelines to ensure that the County remains compliant with federal and state guidelines.

   In addition, the County should consider assigning staff or department with responsibility for accumulating and maintaining centralized grant records. The individual does not have to be the one to prepare the grant applications or even maintain the grants as it relates to reporting and compliance requirements. However, they could be responsible for ensuring that adequate records are maintained and tracked in order to ensure compliance with all federal and state grant requirements. This includes the County's responsibility for preparation of the Schedule of Federal Expenditures as well as determining when the County has met the threshold for Single Audit requirements. It is imperative that the County Commission is aware of all grants applied for, awarded, received and expended as it is their overall responsibility for the County to maintain compliance with the granting agencies.

Lastly, it is also vital that the County's general ledger system easily track all grant related expenditures, including matching requirements. We recommend the County continue the use of separate funds for all grants. We further recommend that all grant expenditures turned in to the Clerk's office be coded to the grant by the department head responsible for the grant. The expenses should be associated with the grant fund and not the departments' general fund. We understand there are situations in which this may not be feasible or it would be too cumbersome to account for the grant expenditure in this manner at the time of occurrence. For example, the County's payroll system may not allow for the allocation of employee time and benefits to the grant fund. In a situation where it is more feasible for journal entries to be used we recommend the reallocation of expenditures be done in the following manner: (1) record an adjusting journal entry which reclassifies the expenditures to the grant fund, reducing the expenditures in the fund originally expensed, rather then recording a reimbursement; (2) the entry must be initiated by the individual responsible for the grant and also include the supporting documentation for the request to reclassify grant expenditures; (3) the request should include the approval of the department head; and (4) the adjustments should be recorded on a monthly or quarterly basis. Recording expenditures to the appropriate grant at the time of occurrence reduces the journal entries required and reduces errors in general ledger recording. These steps should increase accuracy in the County's financial statements as well as assist department heads in grant reporting.

2. <u>Decentralized Receipts</u>:

We have discussed in previous years the importance of having effective internal controls established and properly implemented in order to provide reasonable assurance that specific objectives related to the maintenance of County assets and financial reporting are reliable. We commend the County Commission and management for considering comments in previous years and making appropriate changes to policy and procedure to aid in mitigating risk.

As we have previously stated, several departments within the County collect cash receipts outside of the Treasurer's office (example: Sheriff, Appraisers Office, Agency on Aging, etc.) and turn in their receipts to the County Treasurer for deposit into the County's bank and to record those receipts in the County financial statements. Some departments maintain separate bank accounts and transfer the funds to the County Treasurer. There are no County-wide standard operating policies and procedures, and therefore there are inconsistencies in the documentation that is maintained by each department. Nor is there standard reporting requirements to the Commission with regards to the maintenance of the bank accounts that are not under the Treasurer's control. This often leads to accounts that exist that management and the Commission are unaware of and therefore increases the risk of material misstatement or misuse of County assets. Lastly, in many of the offices due to the size, they are limited as to the ability to segregate duties so that one individual is not performing the entire process of receipting in the cash and depositing the funds.

Recommendations: The following are recommendations to consider in relation to the County's overall general controls over financial reporting and asset safeguarding.

Segregation of Duties and Decentralized Receipts: Financial transactions should not be handled from start to finish by one staff member, to help reduce the risk that an error can be made and concealed. Small organizations like the departments within the County often lack the staff to permit optimal or ideal segregation of duties and to restrict access to assets. Accounting duties can be effectively segregated by involving other staff outside the department (clerk's office staff or other staff outside the function of receiving the funds) in the accounting function and assigning accounting tasks to non-accounting personnel. In addition, a closer involvement in the day-to-day affairs by management often compensates for having a small staff. Regardless of size of staff, it is essential that the County (all Departments) have controls in place to help deter, detect and/or prevent fraud. The following are minimum controls that should be implemented:

a. All cash should be kept secure at all times, allowing only those access that need access to perform their duties.
b. Checks should be restrictively endorsed upon receipt to ensure that only the County is able to cash the checks.
c. A policy should be considered requiring deposits to be made based on a threshold amount set by management and at a minimum, deposits should be made weekly to the Treasurer (regardless of the amount). These measures will help to reduce the risk of loss of cash by reducing the time between receiving and depositing cash.
d. Daily reconciliation of the cash drawer should be required which should include at least two individuals (whenever possible), one to count the receipts immediately at days end and the second to compare the cash collected to the amount of sales recorded for the day.
e. For bank accounts maintained outside of the County Treasurer's office, a bank reconciliation must be performed on a timely basis. If the same individual is responsible for receiving money, depositing the receipts, and reconciling the bank account then an independent review by management and/or another department should be performed on a periodic basis in addition to the review of reports by management. All discrepancies should be reconciled and explained and adjustments must be supported with documentation and approved by management.

Cross-training and rotation of duties: Anytime there is an opportunity to train more than one County staff member on certain duties, generally duties that can be rotated, a reduction in risk of errors can be achieved. This also helps operations continue to run smoothly in the event that there is an emergency and the responsibilities can not be performed by the normal staff person assigned to the duties.

Micro Loan Reconciliation:

We noted during our testing in the Micro Loan fund that the Program Income Reports for Economic Development and the Grant/Local Loan Collection Reports did not agree with the amounts posted in the general ledger. As a result the balances due from certain Companies could not be reconciled between general ledger and the reports and the amounts on the reports did not agree with the bank information. We also note that original agreements may have been amended by the committee, but the written agreements were not replaced or updated. The Committee is informal with documenting changes to the agreements, and thus neither the Company nor the County have current documents to support changes that have been approved.

Recommendation: Personnel that are accumulating the data for the reports to be submitted on a semi-annual basis should be provided the general ledger detail and reconcile the bank information to the ledger. The reports should also be submitted to a designated person at the County to review before submission to the State Agency to assure the information is correct. The Committee or agency in charge of this program should document the changes in agreements with a new contract that is signed by both the County and the owner of the Company.

Payroll Reconciliations:

While performing our audit we noted that salary and wage expenses posted to the general ledger did not match the payroll reports. We noted approximately $1,140 of non payroll expenses posted to payroll accounts in the general ledger and $7,520 more posted to payroll accounts than is shown on the payroll reports in total. Individual funds had differences in balances up to $32,000. After discussing with staff, it was determined that no reconciliation had been done between the payroll reports and general ledger and staff were unaware of the differences.

Recommendation: A reconciliation between the payroll reports and general ledger should be performed by staff each month to ensure correct reporting. If expenses are not being posted to the correct funds it could have a major impact on their budgets. They could be charged to much or not enough which could impact whether or not they remain within budget and if accounts are incorrect, could affect the budget preparation for the next year.

Nutrition Program Reconciliations and Posting:

In 2014, either the Nutrition staff or those within the Clerk's office and Treasurer's office posted some receipts as credits to the reimbursed expenses. Although there was no change in the net income within in each fund, the postings resulted in expenses understated and revenues understated by approximately $70,000 in C-1 and $18,000 in C-2. It is assumed the reports and worksheets prepared by the Director of the program were not reconciled to the general ledger because the error in posting had not been corrected.

Recommendation: The nutrition worksheets produced in the department and the reports provided to outside entities must be reconciled to the general ledger each month to ensure correct reporting. When revenue is posted to a budgeted fund's expense account in error, the expense is understated and it may be determined that the fund is over-budget which would create a budget violation. Additionally, incorrect postings can lead to incorrect data used in the budgeting process making the budget less precise and could lead to incorrect assumptions. The budget is used as a tool for projecting services and requesting funds from various sources, therefore should be as accurate as possible to reduce any funding shortages.